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STATE OF MONTANA
DEPARTMENT OF INSTITUTIONS
MONTANA STATE PRISON

REPORT ON AUDIT

Conducted Under Contract By
Dobbins, DeGuire and Tucker, CPA's

Fiscal Year Ended June 30, 1976



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MONTANA STATE PRISON

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Fiscal Year Ended June 30, 1976

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

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MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

November 4, 1976

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Montana
State Prison for the year ended June 30, 1976.

The audit was conducted by Dobbins, DeQuire and Tucker, CPA's under
a contract between the firm and our office. The comments and recom-
mendations contained in this report represent the views of the firm and
not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Institutions, the Department of Administration, the Office of Budget and Program Planning, and the State Auditor are included in the back of this report.

	<u>Page</u>
Deposit inmate money in the treasury and establish a control account on SBAS.	21
<u>Agency Reply:</u> Pending Attorney General's opinion. See page 31.	
Discontinue using inmate funds to temporarily finance state obligations.	21
<u>Agency Reply:</u> Concur. See page 31.	
Exercise care to avoid using duplicate check numbers.	21
<u>Agency Reply:</u> Concur. See page 31.	
Account for all checks.	21
<u>Agency Reply:</u> Concur. See page 31.	
File cancelled checks with the related bank statements.	22
<u>Agency Reply:</u> Concur. See page 31.	
Record checks as disbursements on the date they are written.	22
<u>Agency Reply:</u> Concur. See page 31.	
Mail checks on the date they are recorded.	22
<u>Agency Reply:</u> Concur. See page 32.	
Avoid cashing checks with petty cash funds.	22
<u>Agency Reply:</u> Do not concur. See page 32.	
Maintain sufficient cost information to achieve a dollar value control for inventories.	22
<u>Agency Reply:</u> Concur. See page 32.	

SUMMARY OF RECOMMENDATIONS (Continued)

Properly segregate inventory functions.	<u>Page</u> 22
<u>Agency Reply:</u> Concur. See page 32.	
Update inventory cards for each transaction and verify by physical count at least annually.	22
<u>Agency Reply:</u> Concur. See page 32.	
Centralize inventory storage as soon as adequate facilities are available.	23
<u>Agency Reply:</u> Concur. See page 32.	
Dispose of obsolete inventory items in accordance with applicable state regulations.	23
<u>Agency Reply:</u> Concur. See page 33.	
Review the adequacy of purchase order procedures for abnormal quantities.	23
<u>Agency Reply:</u> Concur. See page 33.	
Follow the fifo inventory policy.	23
<u>Agency Reply:</u> Concur. See page 33.	
Establish an equitable system for allocating utility costs.	23
<u>Agency Reply:</u> Concur. See page 33.	
Take a complete physical inventory of all fixed assets to comply with Management Memo 70-17.	24
<u>Agency Reply:</u> Concur. See page 33.	
Continue physical counts on an annual basis.	24
<u>Agency Reply:</u> Concur. See page 33.	
Retain inventory workpapers for audit purposes.	24
<u>Agency Reply:</u> Concur. See page 33.	
Include in the property records the asset's carrying value, description, acquisition date, identification number and location.	24
<u>Agency Reply:</u> Concur. See page 34.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Determine carrying values in accordance with generally accepted accounting principals.	24
<u>Agency Reply:</u> Concur. See page 34.	
Make designated personnel responsible for physical control of fixed assets.	24
<u>Agency Reply:</u> Concur. See page 34.	
Update property records monthly for fixed asset purchases, trade-ins, sales, transfers or retirements.	24
<u>Agency Reply:</u> Concur. See page 34.	
Evaluate the potential use for idle buildings and structures.	24
<u>Agency Reply:</u> Concur. See page 34.	
Set up a group of accounts to record the carrying value of all fixed assets.	24
<u>Agency Reply:</u> Concur; however, systems implementation depends on the Department of Administration. See page 34.	
Leave the reserve for encumbrances as a separate line item at year end, supported by a detail list of outstanding encumbrances.	24
<u>Department of Administration Reply:</u> Do not concur. See page 37.	
Designate appropriate office personnel to review expenditure distributions and related reports.	25
<u>Agency Reply:</u> Concur. See page 35.	
Expedite supplemental appropriation procedures to avoid such conflicts.	25
<u>Office of Budget and Program Planning Reply:</u> Do not concur. See page 39.	
Continue its review of probable causes and solutions for the excessive overtime until this problem is resolved.	26
<u>Agency Reply:</u> Concur. See page 35.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Seek legislation to change Central Payroll's pay date from 10 to 14 days following the close of the payroll period.	26
<u>State Auditor's Reply:</u> Do not concur. See page 43.	
Resolve the computational differences on payroll tax withholdings.	26
<u>Central Payroll Division Reply:</u> Do not concur. See page 44.	
Set up an enterprise fund for the license plate manufacturing.	26
<u>Agency Reply:</u> To be studied. See page 35.	
Obtain general ledger control of inventories, fixed assets and related accounts.	27
<u>Agency Reply:</u> Concur. See page 36.	
Issue sales invoices or monthly statements for goods sold.	27
<u>Agency Reply:</u> Concur. See page 36.	
Account for all delivery tickets.	27
<u>Agency Reply:</u> Concur. See page 36.	
Reconcile cash receipts to related billings, delivery tickets and production reports.	27
<u>Agency Reply:</u> Concur. See page 36.	
Request bids for ranch by-products from all available markets.	27
<u>Agency Reply:</u> Concur. See page 36.	
Instruct agencies to obtain accurate cut-offs as of the appropriate dates.	28
<u>Department of Administration Reply:</u> Concur. See page 38.	

Dobbins, DeGuire & Tucker

Certified Public Accountants

1000 - Plaza • Billings, Montana • Missoula, Montana • (406) 543-8376

September 8, 1976

The Legislative Audit Committee of the Montana State Legislature

We have examined the financial statements of the various funds of Montana State Prison (an institution of the State of Montana) for the year ended June 30, 1976, as listed in the accompanying table of contents. Our examination was made in accordance with generally accepted auditing standards and the "Audit Guide for SPA's" issued by the Law Enforcement Assistance Administration, U. S. Department of Justice, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Montana State Prison has not maintained a record of its general fixed assets, and accordingly a statement of general fixed assets, required by generally accepted accounting principles, is not included in the accompanying financial statements.

As discussed in Note 3 to the financial statements, the accompanying financial statements do not include \$96,000 of unrecorded expenditures as of June 30, 1976. Because of this departure from generally accepted accounting principles, encumbered appropriations and accrued support expenditures are understated in the accompanying balance sheet of the general fund by this amount.

As stated in Note 4 to the financial statements, inventories, fixed assets and depreciation have not been recorded in the accompanying financial statements for the prison ranch revolving fund as of June 30, 1976. The amounts by which the financial statements would change, if these items were included, while material, cannot be determined.

As more fully explained in Note 5 to the financial statements, the accompanying financial statements include prior year revenue adjustments of \$20,322. Because of these prior period adjustments, revenues for the Montana State Prison Fund (FPRA) are understated by \$20,322 in the statement of revenues for the year ended June 30, 1976.

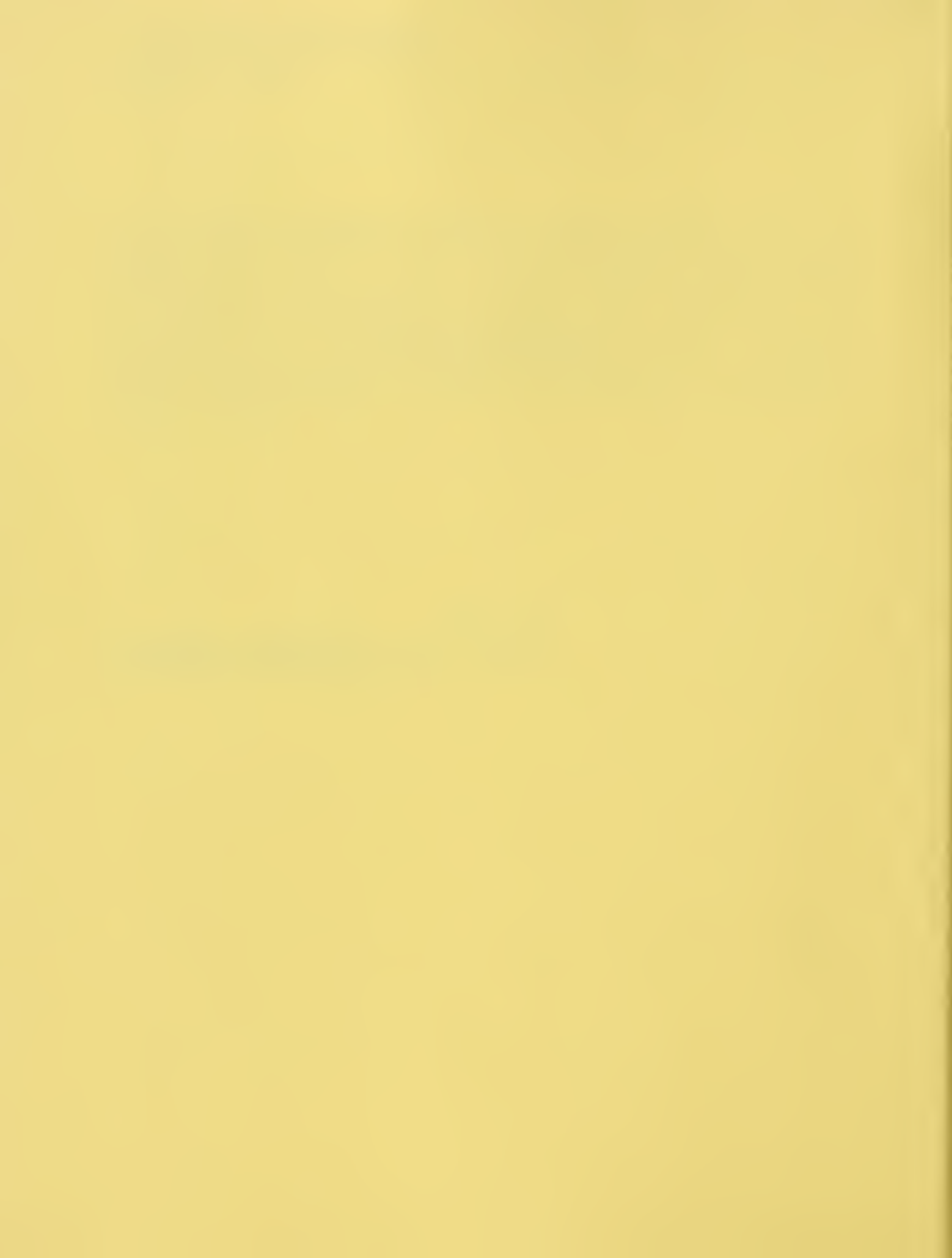
In our opinion, because of the material effect of the matters discussed in the preceding paragraphs, those financial statements and schedule labeled with an adverse opinion in the table of contents, do not present fairly the financial position of these funds at June 30, 1976, or the

results of their operations or changes in financial position for the year then ended in conformity with generally accepted accounting principles. However, in our opinion, the other financial statements listed in the accompanying table of contents present fairly the financial position of the other funds at June 30, 1976, and the results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Supplementary data included in Schedules 2 and 3 have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

Dobbins DeLuire and Tucker

Certified Public Accountants

FINANCIAL STATEMENTS



MONTANA STATE PRISON
(An Institution of the State of Montana)

Combined Balance Sheet
June 30, 1976

			Federal and Private Revenue (FPRA)	
	General Fund	Motor Vehicles Earmarked Revenue	Montana State Prison	Law Enforcement Assistance Administration
Assets and Other Debits	(See accompanying accountants' report for adverse opinion)			
Cash	\$ 2,758	\$ -	\$ 14,303	\$ 26,809
Accounts receivable				
Trade	-	-	-	-
Due from other funds	17,975	-	-	-
Other	14,780	-	-	-
Construction advance	100	-	-	36,787
Deferred charges	1,242	-	-	-
Encumbered appropriation	<u>108,749</u>	<u>1,949</u>	<u>-</u>	<u>-</u>
Total assets and other debits	\$ <u>145,604</u>	\$ <u>1,949</u>	\$ <u>14,303</u>	\$ <u>63,596</u>
Liabilities and Fund Balances				
Accrued support expenditures and withdrawals	\$ 141,604	\$ 1,949	\$ 949	\$ 43,042
Due to other funds	-	-	-	-
Due to inmates	-	-	-	-
Reserve for contingent revolving account	4,000	-	-	-
Receipts collected in advance	-	-	-	-
Fund balance	<u>-</u>	<u>-</u>	<u>13,354</u>	<u>20,554</u>
Total liabilities and fund balance	\$ <u>145,604</u>	\$ <u>1,949</u>	\$ <u>14,303</u>	\$ <u>63,596</u>

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Combined Balance Sheet, Continued
June 30, 1976

<u>Assets and Other Debits</u>	<u>Bond Proceeds and Insurance</u>	<u>Prison Ranch</u> (See accompanying accountants' report for adverse opinion)	<u>Prison Agency</u>
Cash	\$ 178,606	\$ 52,653	\$ 34,954
Accounts receivable			
Trade	-	19,546	-
Due from other funds	-	-	-
Other	-	-	-
Construction advance	-	-	-
Deferred charges	-	-	-
Encumbered appropriation	-	-	-
Total assets and other debits	\$ <u>178,606</u>	\$ <u>72,199</u>	\$ <u>34,954</u>
<u>Liabilities and Fund Balance</u>			
Accrued support expenditures and withdrawals	\$ -	\$ 24,332	\$ -
Due other funds	-	17,975	-
Due to inmates	-	-	33,668
Reserve for contingent revolving account	-	-	-
Receipts collected in advance	-	1,860	-
Property held in trust	-	-	205
Fund balance	<u>178,606</u>	<u>28,032</u>	<u>1,081</u>
Total liabilities and fund balance	\$ <u>178,606</u>	\$ <u>72,199</u>	\$ <u>34,954</u>

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Combined Statement of Revenues - Budget and Actual
For the Year Ended June 30, 1976

	Budget	Federal and Private Revenue (FPRA)						Prison Agency
		General Fund	Prison Earmarked Revenue	Law Enforcement Assistance and Insurance				
				Montana State Prison	Administration	Bond Proceeds	Prison Ranch	
(See accompanying accountants' report for adverse opinion)								
Agricultural								
Product Sales								
Beef	\$ 397,862	\$ -	\$ -	\$ -	\$ -	\$ 369,888	\$ -	
Pork	187,462	-	-	-	-	148,692	-	
Dairy products	198,536	-	-	-	-	239,188	-	
By-products	7,119	-	-	-	-	4,437	-	
Reimbursements								
Subsistence charges	9,100	9,063	-	-	-	-	-	
Fire loss	-	-	-	-	195,991	-	-	
Sale of Equipment	-	35	-	-	-	-	-	
Federal Grants	236,712	-	-	1,578	171,162	-	-	
Interest Income	-	-	90	-	-	-	-	296
Total	\$ 1,036,791	\$ 9,098	\$ 90	\$ 1,578	\$ 171,162	\$ 195,991	\$ 762,205	\$ 296

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Combined Statement of Expenditures, Encumbrances and Transfers
For the Year Ended June 30, 1976

	<u>Budget</u>	<u>Actual</u>
<u>GENERAL FUND</u>		
Administrative Program	\$ 231,954	\$ 231,954
Care and Custody Program	2,226,189	2,209,595
General Services Program	691,928	690,731
Education Program	166,370	149,343
Ranch and Dairy Program	162,046	162,046
Prison Records Program	47,252	46,770
License Plate Manufacturing Program	100,000	100,000
Food Service Program	521,195	516,826
	<u>\$ 4,146,934</u>	<u>\$ 4,107,265</u>
<u>MOTOR VEHICLE EARMARKED REVENUE FUND</u>		
License Plate Manufacturing Program	\$ <u>919,245</u>	\$ <u>918,535</u>
<u>MONTANA STATE PRISON FUND (FPRA)</u>		
Care and Custody	\$ 21,200	\$ 20,010
Education Program	<u>22,554</u>	<u>21,832</u>
	<u>\$ 43,754</u>	<u>\$ 41,842</u>
<u>LAW ENFORCEMENT ASSISTANCE ADMINISTRATION FUND (FPRA)</u>		
Care and Custody Program	\$ 111,103	\$ 38,311
General Services Program	141,690	119,794
Education Program	<u>25,982</u>	<u>2,052</u>
	<u>\$ 278,775</u>	<u>\$ 160,157</u>
<u>BOND PROCEEDS AND INSURANCE CLEARANCE FUND</u>		
General Services Program	\$ <u>-</u>	\$ <u>24,278</u>
<u>PRISON RANCH REVOLVING FUND</u> (See accompanying accountants' report for adverse opinion)		
Ranch and Dairy Program	\$ <u>790,979</u>	\$ <u>734,173</u>

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON

Combined Statement of Changes in Fund Balances
For the Year Ended June 30, 1976

	General Fund	Prison Industrial Earmarked Revenue	Federal and Private Revenue (FPRA)					Bond Proceeds and Insurance	Prison Ranch (See accompanying report for adverse opinion)	Prison Agency
			Motor Vehicle Earmarked Revenue	Montana State	Law Enforcement Assistance Administration					
Fund Balance, July 1, 1975	\$ -	\$ 17,848	\$ -	\$ 53,618	\$ 9,549	\$ 6,893	\$ -	\$ 785		
Additions										
Appropriations for operating purposes	4,146,934	-	919,245	-	-	-	-	-	-	-
Revenue and income	9,098	90	-	1,578	171,162	195,991	762,205	296		
	<u>4,156,032</u>	<u>17,938</u>	<u>919,245</u>	<u>55,196</u>	<u>180,711</u>	<u>202,884</u>	<u>762,205</u>	<u>1,081</u>		
Deductions										
Expenditures	4,107,265	-	918,535	41,842	160,157	24,278	734,173	-		
Revenue deposited to general fund	9,098	-	-	-	-	-	-	-		
Transferred to prison ranch revolving fund	-	17,938	-	-	-	-	-	-		
	<u>39,669</u>	<u>-</u>	<u>710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Reversions										
	<u>4,156,032</u>	<u>17,938</u>	<u>919,245</u>	<u>41,842</u>	<u>160,157</u>	<u>24,278</u>	<u>734,173</u>	<u>-</u>		
Fund Balance, June 30, 1976	\$ -	\$ -	\$ -	\$ 13,354	\$ 20,554	\$ 178,606	\$ 28,032	\$ 1,081		

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Statement of Changes in Financial Position
For the Year Ended June 30, 1976

Prison Ranch
Revolving Fund
(See accompanying
accountants' report
for adverse opinion)

Sources of Funds

Operations

Excess revenues over expenditures	\$ 28,032
Increase in accrued withdrawals	24,332
Increase in amounts due other funds	17,975
Increase in receipts collected in advance	1,860
Total sources of funds	\$ <u>72,199</u>

Uses of Funds

Increase in cash	\$ 52,653
Increase in accounts receivable	19,546
Total uses of funds	\$ <u>72,199</u>

The accompanying notes are an integral part of these financial statements.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Notes to Financial Statements
June 30, 1976

(1) Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and operations of Montana State Prison except for a statement of general fixed assets which is not maintained. The financial transactions for the prison are recorded in different types of funds of the State of Montana. Montana State Prison is a discrete entity and financial data pertaining to the prison have been combined into a set of financial statements in order to provide an understanding of the prison's operations.

The different funds included in the financial statements and their purpose are:

General Fund - To account for all Montana State Prison revenues and expenditures not included in any of the other funds.

Earmarked Revenue Funds - To account for revenues and disbursements specifically designated by law.

Federal and Private Revenue Funds - To account for governmental grants received other than those grants for which a separate fund has been established and account for the expenditures against the grants.

Bond Proceeds and Insurance Clearance Funds - To account for insurance proceeds and expenditures relating to fire losses at the prison.

Prison Ranch Revolving Fund - To account for income and expenditures received and incurred by the prison ranch on an enterprise fund accounting basis.

Agency Funds - To reflect cash held for men committed to the Montana State Prison and reflect the corresponding liability.

The accounting policies of Montana State Prison conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

Fund Accounting - The accounts of the prison are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

Basis of Accounting - The modified accrual basis of accounting, under which expenditures are recorded when the liability is incurred and revenues are recorded when received in cash unless susceptible to accrual, i.e. measurable and available to finance the prison's operations, or of a material amount and not received at the normal time of receipt, is followed for all funds.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in all funds. The balances in the reserve for encumbrances account at June 30, 1976 is included in accrued support expenditures.

Appropriations - Appropriations in the general fund and Motor Vehicle Earmarked Revenue Fund are made by the legislature for operating purposes of Montana State Prison. Expenditures against these appropriations are funded by the corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year end.

Inventories - Inventories are expensed at the time of purchase.

General Fixed Assets - The prison has not maintained a complete record of its general fixed assets. Assets purchased are recorded as expenditures in the various funds in the year of purchase or encumbrance.

Depreciation is not provided on general fixed assets.

Ranch Operation - The ranch operation is a separate program of the prison which consists of a rehabilitation program for the inmates and at the same time reduces labor costs of the ranch and food costs at various state institutions.

Vacation Pay and Sick Pay - The value of unused vacation and unused sick leave accumulated by employees is not recorded as a liability. Each permanent employee can accumulate and carryover a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. The amount of accumulated leave at June 30, 1976 was not readily determinable.

(2) Retirement Plans

The State of Montana has two contributory retirement plans covering substantially all employees of Montana State Prison. Instructional employees are eligible for the Teachers Retirement System and other employees are eligible for the Public Employees Retirement System. Montana State Prison employer contributions for the year ended June 30, 1976 for all funds was \$153,551. The unfunded past service costs and the actuarially computed value of vested benefits is not readily available for members of the plans employed at Montana State Prison.

(3) Unrecorded Liabilities

The prison received certain goods and services prior to June 30, 1976, however, the related amounts were not recorded until fiscal year 1977. If these amounts had been reflected in the financial statements, the balance sheet of the general fund would include additional encumbered appropriations and accrued support expenditures of \$96,000 at June 30, 1976. Accordingly, expenditures in the care and custody program and general fund would have

MONTANA STATE PRISON
(An Institution of the State of Montana)

Notes to Financial Statements, Continued
June 30, 1976

(3) Unrecorded Liabilities, Continued

increased by \$96,000. Since requested supplemental appropriations had not been approved by year end, general fund expenditures would have exceeded its appropriations of \$4,146,934 by \$56,331. The unrecorded expenditures are not considered material to the total general fund expenditures.

(4) Prison Ranch Revolving Fund

An enterprise fund was set up to account for the ranch operations on July 1, 1975. However, inventories, fixed assets and depreciation have not been recorded in the financial statements as required by generally accepted accounting principles. Since the carrying value of these items has not been determined, their material effect on the financial statements can not be presented, either.

(5) Prior Year Revenue Adjustments

Estimated revenues were overstated by \$20,322 in the Montana State Prison Fund (FPRA) for fiscal 1975. The prison recorded the adjustment in fiscal 1976 through the appropriate accounts. This prior period adjustment of \$20,322 has been reflected in statement of revenues for the year ending June 30, 1976. This adjustment results in a material misstatement of current year revenues for this fund.

(6) Accounts Not On Statewide Budgeting and Accounting System

The cash in the agency fund represents primarily cash held in trust for the men committed to Montana State Prison. This cash and the corresponding liability are not recorded in the statewide budgeting and accounting system, but have been reflected in the financial statements for reporting purposes.

(7) Litigation

As of June 30, 1976, the Montana State Prison had been named as defendant in several lawsuits with damage claims totaling approximately \$1,500,000. According to the prison's counsel, these claims are in various stages of completion, and it is not possible to determine the extent of the prison's liability, if any, at this time.

MONTANA STATE PRISON
(An Institution of the State of Montana)

Schedule of Expenditures, Encumbrances and Transfers by Program
For the Year Ended June 30, 1976

	<u>Administration Program</u>	<u>Care and Custody Program</u>	<u>General Services Program</u>	<u>Education Program</u>
Personal Services				
Salaries, wages and employee benefits	\$ <u>205,683</u>	\$ <u>1,917,947</u>	\$ <u>347,803</u>	\$ <u>169,697</u>
Operating Expenses				
Contracted services	320	219,930	16,400	-
Supplies and materials	1,155	42,754	108,620	3,119
Communications	20,577	10	-	-
Travel	1,576	10,085	759	194
Rent	1,301	69	3,741	-
Utilities	-	-	121,941	-
Repairs and maintenance	294	571	82,482	138
Other expenses	<u>859</u>	<u>66,256</u>	<u>957</u>	<u>79</u>
	<u>26,082</u>	<u>339,675</u>	<u>334,900</u>	<u>3,530</u>
Equipment	<u>189</u>	<u>10,295</u>	<u>93,887</u>	<u>-</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>34,820</u>	<u>-</u>
Transfer	<u>-</u>	<u>-</u>	<u>23,392</u>	<u>-</u>
Total expenditures, encumbrances and transfers by program	\$ <u>231,954</u>	\$ <u>2,267,917</u>	\$ <u>834,802</u>	\$ <u>173,227</u>

MONTANA STATE PRISON
(An Institution of the State of Montana)

Schedule of Expenditures, Encumbrances and Transfers by Program
For the Year Ended June 30, 1976

	Ranch and Dairy Program	Prison Records Program	License Plate Manufacturing Program	Food Service Program
	(See accompanying accountants' report for adverse opinion)			
Personal Services				
Salaries, wages and employees' benefits	\$ 328,894	\$ 46,606	\$ 32,145	\$ 160,559
Operating Expenses				
Contracted services	4,322	-	-	-
Supplies and materials	176,946	104	890,830	355,118
Communications	430	-	-	-
Travel	736	-	581	40
Rent	47,936	-	-	-
Utilities	33,898	-	-	-
Repairs and maintenance	26,684	60	3,290	1,109
Other expenses	1,727	-	-	-
	<u>292,679</u>	<u>164</u>	<u>894,701</u>	<u>356,267</u>
Equipment	<u>274,322</u>	<u>-</u>	<u>91,689</u>	<u>-</u>
Capital Outlay	<u>324</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures, encumbrances, and transfers by program	\$ <u>896,219</u>	\$ <u>46,770</u>	\$ <u>1,018,535</u>	\$ <u>516,826</u>

MONTANA STATE PRISON
(An Institution of the State of Montana)

Schedule of Construction Costs
June 30, 1976

	<u>Appropriated</u>	<u>Total Contract</u>	<u>Payments to June 30, 1976</u>	<u>Balance</u>
Montana Correction Facility	\$ 5,321,361	\$ 5,318,659	\$ 4,849,345	\$ 469,314
Sewage Lagoon	225,000	154,301	8,700	145,601
Boilerhouse Fire Renovation	10,000	3,172	3,048	124
Maintenance and Renovations	<u>320,000</u>	<u>320,000</u>	<u>320,000</u>	<u>-</u>
Totals	\$ <u>5,876,361</u>	\$ <u>5,796,132</u>	\$ <u>5,181,093</u>	\$ <u>615,039</u>

MONTANA STATE PRISON
(An Institution of the State of Montana)

Inmate Trust Accounts
For the Year Ended June 30, 1976

	Balance June 30, 1975	Receipts*	Disbursements*	Balance June 30, 1976
Inmate Accounts	\$ 19,792	\$ 138,574	\$ 129,417	\$ 28,949
Inmate Canteen Fund	(510)	52,681	51,209	962
Inmate Welfare Fund	623	5,717	4,535	1,805
Inmate Payroll Fund	(2,657)	57,124	59,694	(5,227)
Inmate Postage Fund	1,415	6,314	5,752	1,977
North American Indian League	330	10,038	8,637	1,731
Unitarium - NAIL	-	525	-	525
Lock Fund	851	349	591	609
Protestant Chaplain Fund	309	350	503	156
Extension Course	10	1,890	1,890	10
LaBarge Jaycee's	21	597	429	189
Spanish Fork Jaycee's	167	763	849	81
Inmate Photo Fund	350	1,115	1,027	438
Mountain States Telephone	98	1,679	1,437	340
Joint Project - Jaycee Account	123	2,638	2,754	7
Various Self Help Groups	503	987	374	1,116
Total	\$ <u>21,425</u>	\$ <u>281,341</u>	\$ <u>269,098</u>	\$ <u>33,668</u>

* Receipts and disbursements are overstated by an unknown amount due to transfers among the various funds.

MONTANA STATE PRISON
(An Institution of the State of Montana)

AUDITORS' OBSERVATIONS AND COMMENTS ON
ACCOUNTING PROCEDURES, FINANCIAL AND LEGAL COMPLIANCE
AND INTERNAL CONTROL

INTRODUCTION

The primary purpose of our examination of the financial statements of the various funds of Montana State Prison for the period ended June 30, 1976 was to enable us to form an opinion as to the financial position of the various funds of Montana State Prison and the results of operations of such funds for the period then ended. As a part of our examination, we reviewed the agency for financial and statutory compliance. In addition, we reviewed and tested the Prison's system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of the evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the Montana State Prison's system of internal accounting control for the year ended June 30, 1976 would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed the following conditions that we believe merit attention. Comments pertaining to previous recommendations by the Office of the Legislative Auditor are included, also.

PREVIOUS RECOMMENDATIONS

We reviewed the recommendations made by the Office of the Legislative Auditor for the year ended June 30, 1973. Numerous recommendations were adopted at the Prison, although some were not. The following summary presents the previous recommendations and their degree of implementation. Those recommendations that we feel merit reconsideration are presented in the related sections of this report.

SUMMARY OF PREVIOUS AUDIT RECOMMENDATIONS

	<u>Degree of Implementation</u>
1) The Department, in consultation with the Department of Administration, review the feasibility of utilizing the Statewide Budget and Accounting System in accounting for Inmate and Patient Trust moneys.	Complete
2) Discontinue comingling of state revenue with inmate cash.	Complete
3) Discontinue using inmate cash to temporarily finance state responsibilities.	Not implemented
4) Dispose of deceased inmate valuables in accordance with legal requirements.	Complete
5) Centralize all inmate cash held in trust under a single custodianship.	Complete
6) Transfer the moneys to the state treasury.	Complete
7) Consult with the Department of Social and Rehabilitation Services to determine other permissible uses of the moneys.	Complete
8) Periodically evaluate the amount needed for the contingent revolving account.	Complete
9) Make timely and regular deposits in accordance with the Montana Administrative Manual.	Complete
10) Establish procedures for preparing a prelisting of cash items received in the accounting office and of comparing such prelistings to deposits made.	Complete
11) Destroy all unnumbered blank check stock on hand for the bank accounts and account for all checks voided.	Complete
12) Properly utilize the safeguards built into the check protector and the safe.	Complete
13) Conduct a physical inventory using sound inventory procedures establishing inventory records of all fixed assets for which they are accountable.	Not implemented
14) Establish a policy of taking an annual physical inventory and otherwise complying with other inventory procedures set forth in Management Memo 70-17	Partial (Policy adopted)
15) Install procedures to adequately control access to the warehouse and commissary and document all merchandise taken from the inventories	Complete
16) Separate the recordkeeping and physical inventory taking from personnel responsible for the custodial function	Complete

SUMMARY OF PREVIOUS AUDIT RECOMMENDATIONS, CONTINUED

17)	Initiate proper budgeting and expenditure control procedures and assure compliance.	Complete
18)	Discontinue the practice of exchange sales to supplement appropriations.	Complete
19)	Adhere to the various governing statutes when disposing of state property	N/A (no timber sales)
20)	Establish an equitable system for determining utility usage and charge for reimbursement on the basis of actual costs.	Partial (See recommendation on Page 23)
21)	Comply with provision of Section 78-1101, R.C.M. 1947, for disposition of insurance proceeds.	Complete
22)	The Department of Institutions seek legislation to permit payment of inmate wages from the source of funding which supports the program where the inmate is working.	Complete
23)	Deposit money derived from sales to the consuming public to the General Fund as prescribed by Section 80-1501(8), R.C.M. 1947.	Complete (Revised)
24)	Recognize revenue in the year received by timely deposit and accrual as prescribed by management memo 2-73-1.	Complete
25)	Seek a revision to Section 80-1503, R.C.M. 1947, to permit sale of valuable by-products on the open market on a routine basis.	Complete (Revised)
26)	Adhere to the provisions of the Department of Institutions policy regarding payment of overtime.	Complete
27)	The Department seeks a written opinion from the Department of Revenue regarding the status of such cash payments.	Not applicable to prison
28)	The Department of Institutions reduce to writing the present warden's employment agreement clarifying the non-cash benefits to be allowed.	Complete
29)	Close the open purchase account at the local supermarket.	Complete
30)	Reassign the duties with respect to the payroll process to achieve the necessary separation of duties.	Complete
31)	Establish written contracts with each parttime professional employee, setting forth the rights and duties of the employer and employee.	Complete
32)	Require monthly billing for those services not covered by the employment agreement.	Complete
33)	Seek approval for all out-of-state travel that does not pertain to receiving or delivering prisoners as required by the Department of Institutions policy.	Complete

SUMMARY OF PREVIOUS AUDIT RECOMMENDATIONS, CONTINUED

- | | |
|--|--|
| 34) Establish a program of monthly reconciliation and review to assure that accounts are properly recorded and adjusted. | Partial (No formal program) |
| 35) The Department of Institutions establish enterprise accounting procedures for the prison ranch. | Partial (See recommendations on Page 26) |
| 36) The Department and prison in cooperation with the Department of Administration develop a cost accounting system which would allocate all costs to products for sale. | Partial (See recommendations on Page 26) |
| 37) The Department consult with the Department of Administration and the Agricultural Experiment Station for the development of a system of animal and crop production records which will adequately account for total production and disposals and properly fix custodial responsibility. | Complete |
| 38) Establish a system which routinely forwards inmate exchange information related to contracts, rates, location, and status to the accounting office. | Complete |
| 39) Provide for monthly analysis of inmate trades for possible monetary offset and timely billing. | Complete |
| 40) Comply with the provisions of Section 80-1905, with respect to good-time allowances granted. | Complete (Law revised) |
| 41) If the awarding of extra good-time can be demonstrated as beneficial in terms of rehabilitation of inmates, propose legislation amending Section 80-1905, to provide for extra good-time. | Complete |

CASH

The prison had two local bank accounts maintained in Deer Lodge banks at June 30, 1976. The inmates' account is not recorded within the Statewide Budget and Accounting System (SBAS). The actual cash under the control of prison officials at June 30, 1976 follows:

<u>ACCOUNT</u>	<u>AMOUNT</u>
Revolving Account - General Fund	\$ 2,758
Inmate Accounts - Held in Trust	<u>33,668</u>
	<u>\$36,426</u>

Our comments relating to the propriety of selected cash accounts, their uses and internal control over cash procedures follow.

Inmate Accounts

Inmates' moneys are deposited by the prison in a trust account. Inmate purchases from the prison canteen or other qualified vendors require transfers of these funds. The transaction volume and internal control requirements make it necessary to post all transactions daily. At June 30, 1976, the inmates' moneys consisted of the following:

<u>ACCOUNT</u>	<u>LOCATION</u>	
Checking	Deer Lodge Bank	\$ 18,193
7 $\frac{1}{2}$ % Savings Certificate of Deposit	Deer Lodge Bank	10,000
Investment	Montana Trust and Legacy Fund	5,000
Petty Cash	Prison Accounting Office	400
Savings Bonds	Prison Accounting Office	<u>75</u>
Total inmate accounts		\$ <u>33,668</u>

The Trust and Legacy Fund investment represents the only inmate moneys deposited in the State Treasury. In addition, inmate moneys are not recorded in the Prison's SBAS reports.

As mentioned previously, SBAS is capable of accounting for such funds. We feel this system would improve the accountability and financial statement presentation for inmate moneys. Accordingly, we recommend depositing these funds in the treasury and establishing a control account on SBAS.

Processing inmate transactions is time consuming for office personnel. Until the prison has the capability of automating this function, efficiency could be improved by eliminating the typed cash receipts and disbursements journals and posting directly to the inmates' accounts from the original documents.

Inmate moneys are still used for the accounting office's petty cash fund and to finance inmate payrolls for seven to ten day periods. As recommended in the Legislative Auditor's prior report, the prison should discontinue using inmate funds to temporarily finance state obligations.

Checking Accounts

Our examination of the checking accounts disclosed the following items:

- 1) A void check could not be located. Unauthorized disbursements or alterations can result if all checks are not strictly accounted for.
- 2) Checks were filed in numerical sequence. This practice makes it virtually impossible to verify bank statements after the checks are filed.
- 3) Two series of checks were used with the same numbers. Duplicate checks hinder accountability and subsequent referencing.
- 4) Outstanding checks at June 30, 1976 were not included on the bank reconciliation. This practice circumvents proper cut-off procedures.
- 5) Checks totaling over \$3,000 were included in fiscal year 1975-1976 disbursements, but were sighted in the safe on July 27, 1976. This practice does not comply with proper cut-off procedures and distorts year end cash reports.

Based on these findings, we recommend that the prison:

- 1) Exercise care to avoid using duplicate check numbers.
- 2) Account for all checks.

- 3) File cancelled checks with the related bank statements.
- 4) Record checks as disbursements on the date they are written.
- 5) Mail checks on the date they are recorded.
- 6) Avoid cashing checks with petty cash funds.

SUPPLIES INVENTORY

The following weaknesses were disclosed during our review of the commissary and warehouse inventory:

- 1) All perpetual inventory records do not include the unit costs. This information is necessary to calculate the inventory's total cost.
- 2) One person is responsible for receiving, safeguarding and distributing inventories. In addition, this same employee has access to perpetual inventory records. These functions are not compatible for good internal control.
- 3) Selected inventory cards were not current or complete. Accurate records are necessary to achieve adequate control.
- 4) Inventories are stored at various locations. This situation handicaps the physical control of inventories.
- 5) Certain obsolete items were included in the inventory. Most obsolete items were of limited value to the prison.
- 6) Excessive quantities of selected foodstuffs were on hand. Timely usage is generally necessary to prevent spoilage.
- 7) Inventory items were not always used on fifo (first in - first out) basis. Lack of use generally increases the potential for obsolescence or spoilage.

In order to strengthen internal control and provide proper accounting over inventory, we recommend:

- 1) The prison maintain sufficient cost information to achieve a dollar value control for inventories.
- 2) Inventory functions be properly segregated.
- 3) Inventory cards be updated for each transaction and verified by physical

count, at least annually.

- 4) The prison centralize inventory storage as soon as adequate facilities are available.
- 5) Obsolete inventory items be disposed of in accordance with applicable state regulations.
- 6) Purchase order procedures for abnormal quantities be reviewed for adequacy.
- 7) The fifo inventory policy be followed.

Since April, 1976, certain steps have been taken to resolve these problems.

However, they were included to encourage their development.

EXPENDITURE ABATEMENTS

The prison allocated utility costs to the ranch, Registrar's Bureau and the University of Montana's Research Unit. Allocations to the ranch are based on its cost accounting system. However, we were not able to find any supporting documentation. The prison and the Registrar's Bureau occupy the same office building. These utilities are allocated by charging the Registrar's Bureau for the gas, while the prison pays for the electricity.

As mentioned previously by the Legislative Auditor, we recommend that the prison establish an equitable system for allocating utility costs.

FIXED ASSETS

Although the prison's fixed assets represent significant capital expenditures, we noted various control weaknesses during our examination. Existing records are inaccurate and lacked information regarding the assets cost and locations. Physical inventory counts are not taken on an annual basis. Buildings related to terminated programs (Ex: lumber and brick production) are not used, or are in poor condition. Fixed assets are not under general ledger control.

We feel the following recommendations would strengthen internal control and provide proper accounting over fixed assets:

- 1) The prison should take a complete physical inventory of all fixed assets to comply with Management Memo 70-17. Physical counts should continue on an annual basis, with property records updated at that time. Inventory workpapers should be retained for audit purposes.
- 2) Property records should include the asset's carrying value, description, acquisition date, identification number and location. Carrying values should be determined in accordance with generally accepted accounting principles.
- 3) Designated personnel should be responsible for physical control of fixed assets.
- 4) Property records should be updated monthly for fixed asset purchases, trade-ins, sales, transfers or retirements.
- 5) The potential use for idle buildings and structures should be evaluated. We recognize the corrective actions initiated regarding the brick kilns and encourage their development.
- 6) The prison should set up a group of accounts to record the carrying value of all fixed assets. This would provide the prison with general ledger control over these assets.

RESERVE FOR ENCUMBRANCES

The encumbrance system of accounting is used by SBAS to record purchase orders and commitments against appropriations at the time the commitment is made. This entry is reversed and the payable recorded in accrued support expenditures when the actual liability is incurred.

The reserve for encumbrances was closed to accrued support expenditures at year end. Therefore, accrued support expenditures consist of both actual and potential liabilities. In addition, this procedure hinders account reconciliations.

We recommend the Department of Administration leave the reserve for encumbrances as a separate line item at year end, supported by a detail list of outstanding encumbrances.

EXPENDITURE DISTRIBUTION

During our review of expenditures we noted various errors regarding their distribution to accounts. Certain overhead expenditures were improperly coded to subprograms, also. Although total program expenditures were correct, coding errors distort detail expenditures for analytical review purposes.

We recommend that expenditure distributions and related reports be reviewed by appropriate office personnel.

LEGAL FEES FOR INMATE CRIMES

A judge ordered payment of certain legal fees and court costs that related to alleged crimes by inmates while they were in prison. Since such expenses are obligations of the Department of Institutions, they were paid by the prison upon the judge's approval.

Prison officials anticipated the expenses would exceed the original appropriation and requested a supplemental amount on March 1, 1976. On March 18, 1976, the Department of Institutions authorized deficit spending by the prison to cover these costs and avoid a contempt of court citation. At June 30, 1976, these legal obligations exceeded the original appropriation and the supplemental amount had not been approved by the Office of Budget and Program Planning. Although a \$100,000 supplement was approved on July 6, 1976, it appears there was a conflict of state law and the Department of Institutions at year end.

We recommend the Office of Budget and Program Planning expedite supplemental appropriation procedures to avoid such conflicts.

PAYROLL

Exceptional amounts of overtime were noted during the 1976 fiscal year, especially in the Care and Custody Program. Frequently, correction officers worked double shifts. Unless this situation constitutes an emergency, it violates Section 80-1903, 1947 R.C.M. In addition, certain instances were noted where the additional hours worked were not reported promptly to the business office. Therefore,

this time was unnecessarily reported in the next pay period.

Due to Central Payroll's reporting deadline, the prison must report estimated hours for the last few days of each pay period. Since it is difficult to estimate overtime requirements, numerous adjustments must be made to each payroll for actual hours worked.

Payroll taxes withheld for selected employees did not agree with amounts computed from applicable percentages. Although the amounts were not significant, we were not able to obtain a reason for the differences.

In order to correct these problems, we make the following recommendations:

- 1) We recommend the prison continue its review of the probable causes and solutions for the excessive overtime until this problem is resolved.
- 2) We recommend the State Auditor's office seek legislation to change Central Payroll's pay date from ten to fourteen days following the close of the payroll period. This would enable the prison to report actual hours worked by employees.
- 3) We recommend the Central Payroll office resolve the computational differences on payroll tax withholdings.

LICENSE PLATE MANUFACTURING

An earmarked revenue fund is used to account for license plate manufacturing. Based on the size and type of operation, we suggest that Montana State Prison set up an enterprise fund for the license plate manufacturing.

RANCH OPERATIONS

The prison has implemented an enterprise fund to account for its ranch operations. However, certain accounting changes must be initiated to properly reflect the ranch operations. In addition, internal control could be strengthened in certain areas.

General Ledger Controls

The prison ranch does not maintain general ledger control over its inventories

and fixed assets. Since fixed asset costs are not recorded on the general ledger, depreciation expense has been omitted from operating statements. Until the prison records inventories, fixed assets and the related depreciation expense, the ranch's financial statements will not be complete or present meaningful operating results.

We recommend the prison obtain general ledger control of inventories, fixed assets and related accounts. This should be implemented by setting up the necessary accounts and recording appropriate costs or carrying values. As mentioned previously by the Legislative Auditor, this will require further development of a cost accounting system.

Sales

Our review of by-product and agricultural product sales disclosed the following items:

- 1) Sales invoices or monthly statements are not sent to the purchaser.
- 2) Although delivery tickets are prenumbered, all tickets are not reviewed for missing numbers.
- 3) Cash receipts from hides and other by-products are not reconciled with delivery tickets or monthly production reports.
- 4) At June 30, 1976, we noted one by-product selling substantially below a quoted market price.

We recommend the prison:

- 1) Issue sales invoices or monthly statements for goods sold.
- 2) Account for all delivery tickets.
- 3) Reconcile cash receipts to related billings, delivery tickets and production reports.
- 4) Request bids for ranch by-products from all available markets.

CUT-OFF PROCEDURES

After the fiscal year end of June 30, state agencies have until approximately July 19 to get accrual and closing entries to the State for inclusion in the statewide budgeting and accounting system (SBAS). This should be adequate time for processing these entries based on the encumbrance system of accounting. Late entries must be reflected in the subsequent year as "prior year revenue and expenditure adjustments."

We recommend that agencies be instructed to obtain accurate cut-offs as of the appropriate dates.

CONCLUSION

It should be noted that this letter is critical in nature. Only our comments and recommendations on deficiencies noted during our examination are contained in it. Numerous internal control strengths observed by us are not included.

If you should require additional information or clarification of the matters discussed in this letter, please contact us.

We have not reviewed the internal control of the prison since September 8, 1976, which is the completion date of our field work.

AGENCIES' REPLIES

State of Montana

Department of Institutions



GOVERNOR
THOMAS L. JUDGE

DIRECTOR
ROBERT H. MATTSO

BOARD MEMBERS
ZELLA A. JACOBSON GREAT FALLS
ELDON E. KUHN, BILLINGS
WILLIS M. MCKEON MALTA
ROBERT J. PALLO KALISPELL
JOHN W. STRIZICH M.D., HELENA

Helena, 59601

October 22, 1976

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Gentlemen:

We have reviewed the audit report prepared by Dobbins, DeGuire, and Tucker, C.P.A. on Montana State Prison. Our review was made in cooperation with Roger Crist, Warden of the Montana State Prison.

The report provides a very welcome service and is sincerely appreciated.

Our response to recommendations is attached.

Sincerely,


Robert H. Mattson
Director

RHM:jw

Enclosure

SUMMARY OF PREVIOUS AUDIT RECOMMENDATIONS

3) DISCONTINUE USING INMATE CASH TO TEMPORARILY FINANCE STATE RESPONSIBILITIES.

3a) In order to implement this recommendation the prison's contingent revolving account will have to be utilized. The June 30, 1973, audit recommendation was to reduce the contingent revolving account. However, since June, 1973, the inmate population has steadily increased. At present, the fund is not being utilized to pay inmate wages in that the inmate payroll is promptly credited to their accounts and a warrant processed. This is necessary so the inmates will be able to have immediate purchasing authority. The deficit exists for approximately seven to ten days during the time the claim is being processed. A formal request will be submitted by November 1, 1976, to increase the contingent fund so immediate payment can be made thereby eliminating the utilization of inmate cash to temporarily finance state responsibilities and still allowing inmates to spend without a ten-day delay.

13) CONDUCT A PHYSICAL INVENTORY USING SOUND INVENTORY PROCEDURES, ESTABLISHING INVENTORY RECORDS OF ALL FIXED ASSETS FOR WHICH THEY ARE ACCOUNTABLE.

13) Having recognized the need for a proper inventory of fixed assets and control thereof, the prison has acquired metal inventory tags and paper inventory cards which are currently being used for establishing the fixed asset records. The program was initiated in April, 1976, and should be totally implemented by the end of the first year after the prison is established in the new complex.

14) ESTABLISH A POLICY OF TAKING AN ANNUAL PHYSICAL INVENTORY AND OTHERWISE COMPLYING WITH OTHER INVENTORY PROCEDURES SET FORTH IN MANAGEMENT MEMO 70-17.

14) Policy has been adopted and a total physical inventory is in the process of being taken. The inventories of food commodities, clothing, office supplies, kitchen utensils and some hardware items has been completed.

20) ESTABLISH AN EQUITABLE SYSTEM FOR DETERMINING UTILITY USAGE AND CHARGE FOR REIMBURSEMENT ON THE BASIS OF ACTUAL COST.

20) The prison agrees with the recommendation; however, to implement an equitable system, each facility would require individual metering devices for electricity and gas. The initial cost element of establishing such a system is prohibitive at this time. As funds become available the present metering systems will be expanded to provide a total equitable system.

34) ESTABLISH A PROGRAM OF MONTHLY RECONCILIATION AND REVIEW TO ASSURE THAT ACCOUNTS ARE PROPERLY RECORDED AND ADJUSTED.

34) No formal monthly review is being made on a line item basis; however, the prison is utilizing Budget Status forms provided by the Department of Institutions and routine spot checks are being made which reveal obvious coding errors. At the present time, a formal plan is being adopted and will be implemented by January 1, 1977.

- 36) THE DEPARTMENT AND PRISON IN COOPERATION WITH THE DEPARTMENT OF ADMINISTRATION DEVELOP A COST ACCOUNTING SYSTEM WHICH WOULD ALLOCATE ALL COST TO PRODUCTS FOR SALE.

In order to implement this recommendation to the extent recommended, the department and the prison have developed alternatives to the existing staffing pattern which, when implemented, should provide the necessary cost account system.

RECOMMENDATION - Page 21.

INMATE ACCOUNTS. RECOMMEND DEPOSITING THESE FUNDS IN THE TREASURY AND ESTABLISHING A CONTROL ACCOUNT ON SBAS.

Inmate monies should not be deposited into any SBAS account within the state treasury system unless such treasury account would provide interest as the inmates are presently allowed to earn per savings and investment accounts. Further, the inmate would have to be made aware that his money would be put into this system and if it further delayed his access to the monies, I feel that it would not be proper. Also past legislative audits at other institutions have raised the question as whether or not patient accounts should be handled in the SBAS system as far as investments and the Montana Attorney General's Office has been asked to write an opinion concerning this problem. As of this date, no opinion has been issued.

RECOMMENDATION - Page 21.

INMATE ACCOUNTS. AS RECOMMENDED IN THE LEGISLATIVE AUDITOR'S PRIOR REPORT THE PRISON SHOULD DISCONTINUE USING INMATE FUNDS TO TEMPORARILY FINANCE STATE OBLIGATIONS.

See earlier response.

RECOMMENDATION - Page 21.

CHECKING ACCOUNTS. BASED ON THESE FINDINGS, WE RECOMMEND THAT THE PRISON:

- 1) EXERCISE CARE TO AVOID USING DUPLICATE CHECK NUMBERS.

1) Appropriate care will be exercised to assure that duplicate check numbers are not used.

- 2) ACCOUNT FOR ALL CHECKS

2) The auditors were unable to initially account for one check number. This check was sent to the printers as an example of the type checks needed. The prison now retrieved the check #800 from the printers. It is now in the file.

- 3) FILE CANCELLED CHECKS WITH BANK STATEMENTS.

3) Will be done.

- 4) RECORD CHECKS AS DISBURSEMENTS ON THE DAY THEY WERE WRITTEN.

4) Will be done.

5) MAIL CHECKS ON THE DATE THEY ARE RECORDED.

5) Will be done.

6) AVOID CASHING CHECKS WITH PETTY CASH FUND.

6) The purpose of this fund is to have cash on hand to provide change for the inmate hobby enterprise. By having this petty cash fund and utilizing it in support of other inmate activities, e.g., cashing of inmate gratuity checks, a service is provided on the inmate's day of departure that he may not be able to obtain in the City of Deer Lodge because of his time of departure. To totally eliminate the cashing of checks from this fund would require the prison to establish a second petty cash fund. This is felt to be unnecessary. The prison will not cash personal checks from staff with this fund.

RECOMMENDATION - Page 22.

IN ORDER TO STRENGTHEN INTERNAL CONTROL AND PROVIDE PROPER ACCOUNTING OVER INVENTORY, WE RECOMMEND:

1) THE PRISON MAINTAIN SUFFICIENT COST INFORMATION TO ACHIEVE A DOLLAR VALUE CONTROL FOR INVENTORIES.

1) Unit costs are being recorded on those inventory cards which do not reflect a cost figure. This information should be recorded on all cards by the end of the Fiscal Year.

2) INVENTORY FUNCTIONS BE PROPERLY SEGREGATED.

2) In order to implement this recommendation to the extent suggested, the department and the prison will have to seek additional authority to increase the number of civilian employees working in the centralized warehouse. Currently there are only three civilian personnel assigned. They are required to supervise the warehouse functions as well as supervise the inmate work forces. As a result of limited staff coupled with the utilization of inmate help, separation of duties in inventory functions is extremely difficult, but procedures will be developed to assure as much separation as possible.

3) INVENTORY CARDS BE UPDATED FOR EACH TRANSACTION AND VERIFIED BY PHYSICAL COUNT AT LEAST ANNUALLY.

3) All cards are being updated with complete information. Annual physical inventory is in process.

4) THE PRISON CENTRALIZE INVENTORY STORAGE AS SOON AS ADEQUATE FACILITIES ARE AVAILABLE.

4) The prison is in the process of moving to its new facilities. The re-location of an existing building to provide for a centralized warehousing facility at the new site has been programmed. Monies to accomplish this project have been requested for FY 77-78.

- 5) OBSOLETE INVENTORY ITEMS BE DISPOSED OF IN ACCORDANCE WITH APPLICABLE STAFF REGULATIONS.
 - 5) The problem of obsolete inventory is common to all institutions. The Central Office of the Department of Institutions is working with each of the institutions to identify these items so they may be disposed of in accordance with State regulations.
- 6) PURCHASE ORDER PROCEDURES FOR ABNORMAL QUANTITIES BE REVIEWED FOR ADEQUACY.
 - 6) Recommendations made by Central Office Dietitian.

- 1) Quantities of food purchased be based solely on menu needs.

- a) Menus be set up on four week cycles.
 - b) Cycles be established one quarter in advance of use.
 - c) Cycles to be written by Food Service Manager.
 - d) Cycle "needs" be clearly established by manager and amounts to be purchased adjusted to inventory on hand.
 - e) Delivery dates for foodstuff be appropriately established and enforced.
 - f) Food Service Manger be responsible for quality of foodstuff received and for proper rotation of foodstuff in warehouse.
 - g) Food Service Manager be provided with current and accurate inventory information.

Dietitian is currently working with Prison personnel to establish and maintain the proper policies and procedures for efficient and effective purchasing.

- 7) THE FIFO INVENTORY POLICY BE FOLLOWED.

- 7) Currently being accomplished.

RECOMMENDATION - Page 23.

AS MENTIONED PREVIOUSLY BY THE LEGISLATIVE AUDITOR, WE RECOMMEND THAT THE PRISON ESTABLISH AN EQUITABLE SYSTEM FOR ALLOCATING UTILITY COSTS.

See earlier response.

RECOMMENDATION - Page 23.

We feel the following recommendations would strengthen internal control and provide proper accounting over fixed assets:

- 1) THE PRISON SHOULD TAKE A COMPLETE PHYSICAL INVENTORY OF ALL FIXED ASSETS TO COMPLY WITH MANAGMENT MEMO 70-17. PHYSICAL COUNTS SHOULD CONTINUE ON AN ANNUAL BASIS, WITH PROPERTY RECORDS UPDATED AT THAT TIME. INVENTORY WORKPAPERS SHOULD BE RETAINED FOR AUDIT PURPOSES.

- 1) The prison agrees with the need for an annual fixed asset inventory and procedures will be established to implement a total program as outlined in Management Memo 70-17. We estimate that all required actions will be completed within six months after moving into the new complex.
- 2) PROPERTY RECORDS SHOULD INCLUDE THE ASSETS CARRYING VALUE, DESCRIPTION, ACQUISITION DATE, IDENTIFICATION NUMBER AND LOCATION. CARRYING VALUES SHOULD BE DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.
 - 2) The prison put into effect a new property assets inventory control card in June, 1976. Full use of this card should bring about compliance with the recommendations.
- 3) DESIGNATED PERSONNEL SHOULD BE RESPONSIBLE FOR PHYSICAL CONTROL OF FIXED ASSETS.
 - 3) Steps will be taken to assure that personnel will be designated to be responsible for the physical control of fixed assets.
- 4) PROPERTY RECORDS SHOULD BE UPDATED MONTHLY FOR FIXED ASSET PURCHASES, TRADE-INS, SALES, TRANSFERS OR RETIREMENTS.
 - 4) Appropriate action will be taken to assure the updating of the fixed assets property cards.
- 5) THE POTENTIAL USE FOR IDLE BUILDINGS AND STRUCTURES SHOULD BE EVALUATED. WE RECOGNIZE THE CORRECTIVE ACTIONS INITIATED REGARDING THE BRICK KILNS AND ENCOURAGE THEIR DEVELOPMENT.
 - 5) The Department of Administration has granted permission to destroy the following buildings:

Emergency Generator Building	#36-A
Emergency Light Plant Building	33-H
Granary Building	10-D
Buildings 4-C, 5-C, & 6-C	

Additional buildings owned by the Prison and located near Boulder River School and Hospital have been evaluated recently by Central Office personnel. Recommendations were made to destroy or salvage many of the structures. We are presently evaluating the proposal and will furnish a decision in the near term.

The capital construction program for the next biennium incorporates proposals for the use of two units located at the old Prison facility. Specifically, funds will be requested to relocate the school facility, which is a Butler Building, for use in housing, inmate on-the-job training programs, and the Prison industries program. A request will also be made to relocate the food service building, also a Butler Building for use as a central warehouse facility.

- 6) THE PRISON SHOULD SET UP A GROUP OF ACCOUNTS TO RECORD THE CARRYING VALUE OF ALL FIXED ASSETS. THIS WOULD PROVIDE THE PRISON WITH GENERAL LEDGER CONTROL OVER THESE ASSETS.

- 6) Systems implementation depends on the Department of Administration, Management System Division program development for fixed assets. This program is scheduled for implementation by June, 1977.

RECOMMENDATION - Page 24. RESERVE FOR ENCUMBRANCES.

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION LEAVE THE RESERVE FOR ENCUMBRANCES AS A SEPARATE LINE ITEM AT THE YEAR END, SUPPORTED BY A DETAILED LIST OF OUTSTANDING ENCUMBRANCES.

Department of Administration will respond.

RECOMMENDATION - Page 25. EXPENDITURE DISTRIBUTION.

WE RECOMMEND THAT EXPENDITURE DISTRIBUTIONS AND RELATED REPORTS BE REVIEWED BY APPROPRIATE OFFICE PERSONNEL.

Will be accomplished.

RECOMMENDATION - Page 25. LEGAL FEES FOR INMATE CRIMES.

WE RECOMMEND THE OFFICE OF BUDGET AND PROGRAM PLANNING EXPEDITE SUPPLEMENTAL APPROPRIATION PROCEDURES TO AVOID SUCH CONFLICTS.

The Office of Budget and Program Planning will respond.

RECOMMENDATION - Page 26. PAYROLL.

IN ORDER TO CORRECT THESE PROBLEMS, WE MAKE THE FOLLOWING RECOMMENDATIONS:

- 1) WE RECOMMEND THE PRISON CONTINUE ITS REVIEW OF THE PROBABLE CAUSES AND SOLUTIONS FOR THE EXCESSIVE OVERTIME UNTIL THE PROBLEM IS RESOLVED.
 - 1) Overtime is being reviewed on a payroll by payroll basis. Appropriate action is being taken to curtail the overtime in those cases where it is not of an emergency nature. As our population increases there is more work for staff to do.
- 2) WE RECOMMEND THE STATE AUDITOR'S OFFICE SEEK LEGISLATION TO CHANGE CENTRAL PAYROLL'S PAY DATE FROM TEN TO FOURTEEN DAYS FOLLOWING THE CLOSE OF THE PAYROLL PERIOD. THIS WOULD ENABLE THE PRISON TO REPORT ACTUAL HOURS WORKED BY EMPLOYEES.
 - 2) The State Auditor will respond.
- 3) WE RECOMMEND THE CENTRAL OFFICE RESOLVE THE COMPUTATIONAL DIFFERENCES ON PAYROLL TAX WITHHOLDINGS.
 - 3) Central Payroll will respond.

RECOMMENDATION - Page 26. LICENSE PLATE MANUFACTURING.

AN EARMARKED REVENUE FUND IS USED TO ACCOUNT FOR LICENSE PLATE MANUFACTURING. BASED ON THE SIZE THE TYPE OF OPERATION, WE SUGGEST THAT MONTANA STATE PRISON SET UP AN ENTERPRISE FUND FOR THE LICENSE PLATE MANUFACTURING.

The need for an enterprise program for the Tag Plant Operation has previously

been brought to the attention of the Department of Institutions, and it is their position that the creation of such a fund would probably be desirable and it is presently being studied.

RECOMMENDATION - Page 27. RANCH OPERATIONS - GENERAL LEDGER CONTROL

WE RECOMMEND THE PRISON OBTAIN GENERAL LEDGER CONTROL OF INVENTORIES, FIXED ASSETS AND RELATED ACCOUNTS.

The prison agrees with the need for General Ledger Control for the ranch operation. Procedures will be established to implement and maintain an operative cost accounting system.

RECOMMENDATION - Page 27. RANCH OPERATIONS-SALES.

We recommend the Prison:

1) ISSUE SALES INVOICES OR MONTHLY STATES FOR GOODS SOLD.

1) At the time of the audit this was being accomplished for all agencies except for one firm. Beginning October 1, 1976, sales tickets were being issued for items being sold to this firm.

2) ACCOUNT FOR ALL DELIVERY TICKETS.

2) Will be accomplished.

3) RECONCILE CASH RECEIPTS TO RELATED BUILDINGS, DELIVERY TICKETS AND PRODUCTION REPORTS.

3) Presently being accomplished.

4) REQUEST BIDS FOR RANCH BY-PRODUCTS FROM ALL AVAILABLE MARKETS.

4) Vendors were contacted on October 5, 1976, and their responses are being awaited.

RECOMMENDATION - Page 28. CUT-OFF PROCEDURES.

WE RECOMMEND THAT AGENCIES BE INSTRUCTED TO OBTAIN ACCURATE CUT-OFFS AS OF THE APPROPRIATE DATES.

In the future a greater effort will be made by the prison to comply with year-end cut-off dates as supplied by the state.

The cooperative spirit of the staff of Dobbins, DeGuire and Tucker, Certified Public Accountants during this examination was excellent and greatly appreciated.



THOMAS H. JUDGE Governor

STATE OF MONTANA
DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE
MITCHELL BUILDING
HELENA, MONTANA 59601

October 14, 1976

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

RECEIVED

OCT 15 1976

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Brusett:

In response to your September 21, 1976 letter, the Department of Administration is replying to certain recommendations to be included in the forthcoming audit report on the Montana State Prison.

Page 24, Recommendation

We recommend the Department of Administration leave the reserve for encumbrances as a separate line item at year end, supported by a detail of outstanding encumbrances.

We disagree with the recommendation because we feel that the present system of establishing only "valid obligations" as accrued expenditures at year end is a more viable solution to the problem of year end encumbrances.

The proposed methodology contemplates that all outstanding encumbrances at year end are valid obligations against the current period, which is not always true.

The recommendation itself appears to be based upon a misunderstanding of current procedures since the analysis presented just prior to the recommendation is not accurate. The analysis reads as follows:

The encumbrance system of accounting is used by SBAS to record purchase orders and commitments against appropriations at the time the commitment is made. This entry is reversed and the payable recorded in accrued support expenditures at year end. Therefore, accrued support expenditures consist of both actual and potential liabilities. In addition, this procedure hinders account reconciliations.

The actual procedures referred to in the auditors' analysis are as follows:

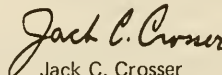
During the year encumbrances are reversed after goods or services have been received and the payment therefor is being made. At year end all outstanding encumbrances are closed (reversed). Agencies are required to establish accrued expenditures for any "valid obligations" as of fiscal year end. To assist State agencies, accrued expenditure documents are partially prepared (via computer generation) for all encumbrances that were closed at year end. Agencies are instructed to review these documents and complete and submit only those that represent valid obligations. The definition for "valid obligations" can be found in MAM Chapter 2-1400 plus Management Memo 2-76-3, dated April 13, 1976.

Page (blank), Recommendation

We recommend that agencies be instructed to obtain accurate cut-offs as of the appropriate dates.

We agree and have been instructing agencies to do just that as evidenced by our year end Management Memo 2-76-3, dated April 13, 1976.

Sincerely,



Jack C. Crosser
Director

JCC/je

Office of the Governor

Thomas L. Judge
GovernorMichael G. Billings
Director

Budget and Program Planning

Capitol Building · Helena, Montana 59601

September 28, 1976

Mr. Morris Brusett, Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol Building
Helena, Montana 59601

OR

Dear Mr. Brusett:

The following is our reply to the section of the audit performed of the Montana State Prison by Dobbins, DeGuire and Tucker, CPA's entitled *Legal Fees for Inmate Crimes*.

Auditor's Comments and Recommendation:

A judge ordered payment of certain legal fees and court costs that related to alleged crimes by inmates while they were in prison. Since such expenses are obligations of the Department of Institutions, they were paid by the prison upon the judge's approval.

Prison officials anticipated the expenses would exceed the original appropriation and requested a supplemental amount on March 1, 1976. On March 18, 1976, the Department of Institutions authorized deficit spending by the prison to cover these costs and avoid a contempt of court citation. At June 30, 1976, these legal obligations exceeded the original appropriation and the supplemental amount had not been approved by the Office of Budget and Program Planning. Although a \$100,000 supplement was approved on July 6, 1976, it appears there was a conflict of state law and the Department of Institutions at year end.

We recommend the Office of Budget and Program Planning expedite supplemental appropriation procedures to avoid such conflicts.

Office of Budget and Program Planning Response:

The Budget Director does not concur with the auditor's statement of the problem or with his recommendations.

The auditor's reference to a Department of Institutions' authorization for the prison to "deficit spend" has no meaning, in that at the time the "authorization" memo (attached) was written, ample funding existed to make the ordered payment, so that "deficit spending" was not a consideration. Mr. Halley, who wrote the memo on an "impromptu" basis during a visit to the prison (note it was written to Mr. Boyette - misspelled Burchette - on prison letterhead, although Mr. Halley was employed by the Department of Institutions in Helena), had no understanding of state finance, which explains his use of the inappropriate terminology "deficit spending".

Further, referring again to Mr. Halley's memo "authorizing" deficit spending by the prison, a supplemental request had *not* been submitted to the Office of Budget and Program Planning at the time of writing, as claimed in the memo. The supplemental request was submitted by the prison to the Department of Institutions on March 9 (not March 1 as claimed by the auditor), and was not submitted to this office by the Department of Institutions until June 21 (it was signed by the Department of Institutions' Corrections Division administrator on June 18, and arrived in this office on June 21). The request lacked adequate justification, which required a week to obtain and evaluate, and the request was given final approval by the Budget Director on June 28. While the auditor's



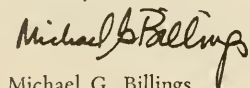
statement that on June 30, 1976, the legal obligations exceeded the *original* appropriation was true, it is irrelevant, because by June 30, approval to exceed that original appropriation had already been granted by the Budget Director, as provided by law. The auditor apparently was confused by the fact that the Form 212 setting up the supplemental amount in the accounting system was not processed until July 6.

His concern about this is unwarranted, because the Form 212 is merely a piece of paper which is initiated only *after* approval of a budget amendment has been granted. That the Form 212 did not get into the bookkeeping system until July 6 has no significance, since fiscal year books are not officially (and legally) closed until the third week in July because of accruals and the deluge of year-end transaction processing, and June 30 balances cannot be known until that time.

In view of the above discussion, the auditor's recommendation that the Office of Budget and Program Planning expedite supplemental processing procedures is both invalid and inappropriate. It should be understood that the Office of Budget and Program Planning has the obligation to carefully evaluate budget amendment requests of all kinds, and especially those related to expenditure requirements which would exceed original legislative appropriations. The legislature expects thorough consideration to be given to these requests, the taxpayer deserves it, and this office will conscientiously attempt to accomplish just that.

With respect to the issue at hand, the turn-around time for the request was one week (June 21 to June 28), which is about average for such requests. To attempt to "expedite" the evaluation process would be tantamount to the Office of Budget and Program Planning providing a "rubber stamp" service for state agencies, which is not what the legislature intended when it assigned budget amendment approval authority to the Budget Director.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael G. Billings". The signature is fluid and cursive, with the first name "Michael" being more prominent.

Michael G. Billings
Director



Montana State Prison

OFFICE OF THE WARDEN

DEER LODGE, MONTANA

59722

GER W CRIST WARDEN

MEMO

TO: James O. Burchette

March 18, 1976

FROM: Bill Halley *WCH*

SUBJECT: Payment of Legal Fees Relating to Criminal Actions

1. As guidance, you are requested to defer payment of legal fees incident to the Bretz-Kline action until the Supplemental Budget Amendment currently submitted to the Office of Program Planning and Budget has been approved.

2. As an exception to the above, deficit spending to cover these costs is authorized to avoid contempt of court citation.

3. For future reference, it is requested that any charges relating to such legal actions be referred to the Plans and Management Services Division (so that the Department may benefit from the expert opinions of the Attorney General and the Department of Administration) prior to payment.

*1cc - Dept. of
5/17/76.*



STATE OF MONTANA

OFFICE OF
E. V. "SONNY" OMHOLT

STATE AUDITOR
COMMISSIONER OF INSURANCE
INVESTMENT COMMISSIONER
CENTRAL PAYROLL SYSTEM

HELENA, MONTANA 59601

RECEIVED

OCT 15 1976

MONTANA LEGISLATIVE AUDITOR

October 15, 1976

Mr. Morris L. Brusett
Legislative Auditor
State of Montana
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

Attached are our written comments to the portion of the audit report of the Montana State Prison which addresses two recommendations to the Central Payroll Division of the State Auditor's Office.

The copy of the audit report which we received was stamped, "Discussion Draft, Not to Be Photocopied or Released, To Be Returned To Legislative Auditor." Please be advised that we feel it is necessary to have this copy for our files as support documentation for the copy of our reply.

E. V. "SONNY" OMHOLT
State Auditor & Ex Officio
Commissioner of Insurance

By:

A handwritten signature in cursive script, appearing to read "T. M. Sedem".

Administrator, Central Payroll Division

Attach.

RECOMMENDATION

We recommend the State Auditor's office seek legislation to change Central Payroll's pay date from ten to fourteen days following the close of the payroll period. This would enable the prison to report actual hours worked by employees.

- - - - -

On July 1, 1968, the State of Montana initiated a pilot program for a centralized payroll system for State employees. At that time a Friday pay period ending was established with payday one week later in order to meet the criteria of the 1968 Legislative Auditor's Report in which a centralized payroll function was recommended.

"If a centralized payroll system is adopted, consideration should be given to a plan that would provide for the payment of salaries only after the salary has been earned in full."

Since July 1, 1968, the pay period ending and payday have remained the same. That is, salary warrants are not released until after the end of the pay period and only after the salary has been earned in full.

We are fully aware that some Agencies must report estimated hours for the last days of the pay period to meet our reporting deadline. Our deadline is noon on Monday and payroll warrants are written Wednesday evening. Incorrect estimation of an employee's time can be corrected before payroll warrants are written. Such corrections which take place on Tuesday and Wednesday following the end of the pay period are an integral part of payroll processing. Also, a payroll warrant issued to an employee which would result in an overpayment of wages can be withheld from that employee and cancelled. Emergency all-purpose warrant procedures or Agency revolving cash funds are utilized if an employee is grossly underpaid.

The problems listed in the report concerning the estimation of employees' time has been and is being handled satisfactorily by the Agency Payroll Technicians and payroll processing procedures. In addition, State employees would be penalized by the extension of payday.

- (1) Such a change would place a hardship on most employees to meet financial obligations for three weeks on two week's pay.
- (2) Payroll deductions such as credit union, union dues, U. S. Savings Bonds, health insurance premiums, and etc. would be remitted to the payee one week later. This would cause a loss in interest income for employees as well as a delay in the processing of health insurance claims by the insurance carriers.

Finally, the computerized time reporting and payroll preparation system being installed at Warm Springs State Hospital could alleviate the problems connected with employee time estimation for that institution as well as other State Agencies. Therefore, we do not feel that it is appropriate at this time to consider the extension of payday for the reason outlined in the audit report.

We recommend the Central Payroll office resolve the computational differences on payroll tax withholdings.

- - - - -

The detail information that was supplied to this office indicated that the federal and state income taxes withheld from the following Montana State Prison employees was incorrect for the pay period ending dates shown.

Employee A	period ending 05/07/76
Employee B	period ending 07/18/75
Employee C	period ending 01/16/76

An analysis revealed that the differences in the taxes withheld by the Central Payroll system and those calculated by the auditor occurred when the auditor used the incorrect number of withholding exemptions for that time period. The withholding exemptions for Employee A are 3, not 2 as shown by the detail information furnished by the audit firm; 4 for Employee B, not 5; and 2 for Employee C, not 0. Copies of their Forms W-4, "EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE," are attached for documentation.

The value of each withholding exemption affects taxable income and the tax withheld amounts. Our report, "BI-WEEKLY CALCULATE PAYROLL DETAIL LISTING," provides the marital status and the number of withholding exemptions for each employee paid for each pay period as well as the amounts of all payroll withholdings.

The proper and accurate tax withholding is a prime responsibility of any payroll system and any deviation therefrom regardless of the amount of the difference should be considered to be significant. Therefore, in the future we would appreciate receiving immediate notice of possible improper tax withholdings so that if an error is present in the programs of the payroll system, it can be corrected at the earliest possible time.

Employee's Withholding Exemption Certificate

Employee B

Home address _____

City Deer Lodge

State Mont

ZIP code 59722

EMPLOYEE:

File this form with your employer. Otherwise, he must withhold U.S. income tax from your wages without exemption.

EMPLOYER:

Keep this certificate with your records. If you believe the employee claimed too many exemptions advise your District Director.

HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS

1. If SINGLE (or if married and wish withholding as single person), write "1." If you claim no exemptions, write "0"
2. If MARRIED, one exemption each is allowable for husband and wife if not claimed on another certificate.
(a) If you claim both of these exemptions, write "2"; (b) If you claim one of these exemptions, write "1"; (c) If you claim neither of these exemptions, write "0" 2
3. Exemptions for age and blindness (applicable only to you and your wife but not to dependents):
(a) If you or your wife will be 65 years of age or older at the end of the year, and you claim this exemption, write "1"; if both will be 65 or older, and you claim both of these exemptions, write "2"
(b) If you or your wife are blind, and you claim this exemption, write "1"; if both are blind, and you claim both of these exemptions, write "2" 2
4. If you claim exemptions for one or more dependents, write the number of such exemptions. (Do not claim exemption for a dependent unless you are qualified under Instruction 4 on other side.) 2
5. If you claim additional withholding allowances for itemized deductions attach Schedule A (Form W-4) and enter the number of allowances claimed (if claimed you must file a new Form W-4 each year) 4
6. Add the exemptions and allowances (if any) which you have claimed above and enter total 4
7. Additional withholding per pay period under agreement with employer. (See instruction 1.) \$

Under the penalties of perjury, I certify that the number of withholding exemptions and allowances claimed on this certificate does not exceed the number to which I am entitled.

(Date) 5-16, 19 75

(Signed) Employee B

Employee's Withholding Exemption Certificate

Employee A

Home address _____

City Deer Lodge

State Mont

ZIP code 59722

EMPLOYEE:

File this form with your employer. Otherwise, he must withhold U.S. income tax from your wages without exemption.

EMPLOYER:

Keep this certificate with your records. If you believe the employee claimed too many exemptions advise your District Director.

HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS

1. If SINGLE (or if married and wish withholding as single person), write "1." If you claim no exemptions, write "0"
2. If MARRIED, one exemption each is allowable for husband and wife if not claimed on another certificate.
(a) If you claim both of these exemptions, write "2"; (b) If you claim one of these exemptions, write "1"; (c) If you claim neither of these exemptions, write "0" 2
3. Exemptions for age and blindness (applicable only to you and your wife but not to dependents):
(a) If you or your wife will be 65 years of age or older at the end of the year, and you claim this exemption, write "1"; if both will be 65 or older, and you claim both of these exemptions, write "2"
(b) If you or your wife are blind, and you claim this exemption, write "1"; if both are blind, and you claim both of these exemptions, write "2"
4. If you claim exemptions for one or more dependents, write the number of such exemptions. (Do not claim exemption for a dependent unless you are qualified under Instruction 4 on other side.) 1
5. If you claim additional withholding allowances for itemized deductions attach Schedule A (Form W-4) and enter the number of allowances claimed (if claimed you must file a new Form W-4 each year) 3
6. Add the exemptions and allowances (if any) which you have claimed above and enter total 3
7. Additional withholding per pay period under agreement with employer. (See instruction 1.) \$

Under the penalties of perjury, I certify that the number of withholding exemptions and allowances claimed on this certificate does not exceed the number to which I am entitled.

(Date) 20 January, 19 72

(Signed) Employee A

Employee's Withholding Exemption Certificate

Employee C

Type or print full name

Social Security Number

Home address

City Port

State NY

ZIP code 11201

EMPLOYEE:

File this form with your employer. Otherwise, he must withhold U.S. income tax from your wages without exemption.

EMPLOYER:

Keep this certificate with your records. If you believe the employee claimed too many exemptions advise your District Director.

HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS

1. If SINGLE (or if married and wish withholding as single person), write "1." If you claim no exemptions, write "0"
2. If MARRIED, one exemption each is allowable for husband and wife if not claimed on another certificate.
 - (a) If you claim both of these exemptions, write "2"; (b) If you claim one of these exemptions, write "1"; (c) If you claim neither of these exemptions, write "0" 2
3. Exemptions for age and blindness (applicable only to you and your wife but not to dependents):
 - (a) If you or your wife will be 65 years of age or older at the end of the year, and you claim this exemption, write "1"; if both will be 65 or older, and you claim both of these exemptions, write "2"
 - (b) If you or your wife are blind, and you claim this exemption, write "1"; if both are blind, and you claim both of these exemptions, write "2"
4. If you claim exemptions for one or more dependents, write the number of such exemptions. (Do not claim exemption for a dependent unless you are qualified under instruction 4 on other side.)
5. If you claim additional withholding allowances for itemized deductions attach Schedule A (Form W-4) and enter the number of allowances claimed (if claimed you must file a new Form W-4 each year)
6. Add the exemptions and allowances (if any) which you have claimed above and enter total 2
7. Additional withholding per pay period under agreement with employer. (See Instruction 1.) \$

Under the penalties of perjury, I certify that the number of withholding exemptions and allowances claimed on this certificate does not exceed the number to which I am entitled.

(Date) 11-22, 1974

(Signed) Employee C

